

Letter of Transmittal
January 1, 2004

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted herewith is the 2004 Annual Budget for the City of Franklin as adopted by the Common Council on November 5, 2003.

Introduction

The budget process begins with the preparation of a budget forecast. The forecast calculated 2004 costs based on a set of cost assumptions applied to the 2003 approved work program. The forecast was completed May 28, 2003. At that time, the departments were requested to provide their input on personnel needs, capital outlays, equipment replacement needs, street improvement needs, capital improvement needs, and related debt service needs for 2004. That information, plus the forecast, was provided to the Mayor. The Mayor and staff reviewed the forecast and determined what additional personnel needs, capital outlays, equipment replacement needs, street improvement needs, capital improvement needs, and related debt service would be included in the Mayor's Requested Budget. That information was communicated to the departments. The departments then prepared their Department Requested Budgets and submitted them to the Finance Officer for compilation. The Mayor met with the Director of Administration and Finance Officer to finalize the 2004 Requested Budget. That budget was submitted to the Finance Committee for review and recommendation to the Common Council.

The Budget document consists of three sections. Summary information regarding the Tax Levy and information regarding the City of Franklin operating and capital funds are presented first. Budgets for the operating departments are next, followed by budgets for the Library, Sewer, Capital, and the Debt Service Funds.

Assessed Valuation

The assessed value of all property from new development increased by an estimated \$75,900,000, or a 3.9% increase. The year 2003 was a revaluation year and the estimated increase due to revaluation was 17.6%. Exclusive of the TID value, this results in an estimated City assessed value increase from \$1,910,024,440 to \$2,323,110,110, or 21.6%.

Tax Levy and Tax Rate

The tax rate is the result of the tax levy required to finance the activity in all funds divided by assessed value of the City. In a revaluation year, the assessed value contains two components: the new construction amount and the reassessment amount. The prior year tax levy divided by the new assessment amount for existing property results in a tax rate adjusted for the reassessment. That new rate, multiplied by the new construction value, provides the amount of growth tax levy that is estimated at \$527,125. The tax levy required to finance the requested 2004 Annual Budget (all funds) has increased from \$15,606,851 to \$15,813,611, or 1.32% increase.

The result is a tax rate of \$6.80 per \$1,000 of assessed value compared to last years tax rate before reassessment of \$8.17 per \$1,000. The percentage tax rate decrease is 16.69%. There is new tax levy revenue of approximately \$527,000 from growth in City of Franklin properties that accounts for the difference in percentage impacts.

The breakdown by Fund reflects the tax levy requests by fund.

City of Franklin Tax Levy Information

City Tax Rate Components	2004 Budget	2004 Budget	2003 Budget	Tax Levy	2003 Budget	Tax Rate
	Tax Levy	Tax Rate	Tax Levy	% Change	Tax Rate	% Change
Equipment Revolving	255,000	0.1097666	270,000	-5.56%	0.1413594	-22.35%
Capital Outlay	223,000	0.0959920	391,100	-42.98%	0.2047618	-53.12%
Street Improvement	700,000	0.3013202	644,000	8.70%	0.3371685	-10.63%
Debt Service	2,410,211	1.0374932	2,610,624	-7.68%	1.3668014	-24.09%
Subtotal	3,588,211	1.5445720	3,915,724	-8.36%	2.0500911	-24.66%
Library Program	884,500	0.3807396	869,000	1.78%	0.4549680	-16.32%
General Fund Budget	11,340,900	4.8817746	10,822,127	4.79%	5.6659626	-13.84%
	15,813,611	6.8070862	15,606,851	1.32%	8.1710217	-16.69%
Prior Year Levy	-15,606,851		-14,861,543			
Increase in Tax Levy	206,760		745,308			

Letter of Transmittal
January 1, 2004

General Fund Summary

The revenue other than the tax levy and fund balance transfer for 2002 was \$7,872,633 with a 2003 Adopted Budget of \$7,934,309, a 0.8% increase. The Adopted Budget for 2004 is \$7,593,400, a 4.3% decrease. The decrease is primarily due to a \$266,688 loss of State Shared Revenue. In addition, the City will only record 60% of the landfill siting revenue in the General Fund in 2004.

The property tax levy revenue for 2002 was \$9,750,855, with 2003 budgeted revenue of \$10,822,127, an 11.0% increase. The adopted tax levy revenue for 2004 is \$11,340,900, a 4.8% increase.

The expenditures are the requests of the departments then adjusted by the Mayor, Finance Committee, and then adopted by the Common Council. The 2002 actual expenditures were \$16,814,556 and the 2003 Adopted Budget was \$18,906,436, a 12.4% increase. The 2004 Adopted Budget is \$19,714,300, a 4.3% increase. Increasing employee wage and health benefit costs, and an increase in the City's appropriation for contingencies, cause the increase in the 2004 Budget from 2003.

When the 2004 requested operating budgets were compiled, they were \$670,000 over the expenditure restraint limit. The changes that were incorporated into the budget during the review process reduced that by almost \$675,000, resulting in continued qualification for the expenditure restraint program.

The overtime philosophy was maintained at an estimate of an average years exposure with the understanding that the departments will be able to request additional appropriations from fund balance in a year in which there are above average departmental needs for overtime costs. A similar philosophy was continued for salt purchases, fuel, and claims against the City.

Library Fund

The Library's 2004 expenditure budget is \$962,772, or an increase of \$33,890 (3.6%) in support of Library activities. The 2004 revenue budget in the Library Fund is \$952,500, an increase of \$23,618 (2.5%) over 2003. The 2004 Budget also anticipates that the Library Fund will utilize \$10,272 of anticipated Fund Balance from 2003 for this year's operations.

Letter of Transmittal
January 1, 2004

Equipment Revolving Fund

The Equipment Revolving Fund accounts for the purchase of various types of motorized equipment. New equipment purchased by other funds and replacement equipment purchased is placed on a depreciation schedule in the year acquired. Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy should approximate the annual depreciation of the replacement value attributed to the City's total fleet based on the estimated useful life. Replacement expenditures totaling \$223,000 have been approved for 2004.

Capital Outlay Fund

The Capital Outlay Budget for 2004 totals \$473,025 compared to \$671,770 in 2003. The budget is lower in large part due to a \$125,920 reduction in Police Department funding. The budget appropriations for replacement of squads, the purchase of mobile computers, and portable radios have been reduced from the 2003 level.

Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to the activities in this fund. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many of those streets will need to be reconstructed in the next few years. Funding is being increased in this fund to be able to handle those additional road reconstruction projects. Tax Levy support is increased to \$700,000 in 2004 from \$644,000 in 2003.

Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this 5-year forecast for planning purposes. Most items contained in the Capital Improvement Fund will be financed without the issuance of debt. The major item in the 2004 Budget is the funding for the Briarwood Sewer project. A budget for the Capital Improvement Fund is prepared each year as the first year of the 5-year forecast. The budget includes projects that have Common Council approval and have a specific budget appropriation. For those projects that have not yet had Common Council review and approval, an unallocated total appropriation is included based on estimated costs.

Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenditures are to MMSD and for the salaries, capital assets, and other costs of running the department. The Sewer Fund is continuing its Sewer Rehabilitation Program, resulting in the budgeted reduction in Fund Balance.

Letter of Transmittal
January 1, 2004

Debt Service Fund

No debt was issued in 2003 or planned for 2004. Normally, the City issues debt every other year. In 2004, rather than issuing new general obligation debt, the plan is to borrow funds internally to meet the financing need. The Briarwood Sewer project is assessable to residents or funded by sewer related funds on hand. The payments from the special assessments will retire this internal debt during the next 10 years. The advantages of internal borrowing include the avoidance of bond issuance costs; the lending fund will receive a rate of interest higher than is currently available in the investment market. Also continuing in 2004 is the transfer of 40% of the Waste Management landfill siting fees to be recorded as debt service revenue. By doing so, the debt service tax levy was reduced by \$100,000. If this process is continued for another 3 years, \$3 Million dollars of indebtedness will be able to be retired earlier than currently scheduled.

Water Utility

The approving body for the Water Utility is the Franklin Board of Water Commissioners. The approved 2004 Budget is included for informational purposes.

Conclusion

State Shared Revenue cutbacks and transferring funding to the Debt Service Fund, combined with the effort to limit the tax levy increase to the increase in growth, made putting the 2004 Budget together a difficult task. In a growing community, the effort to control the increase in the tax levy will continue to present a challenge during the budget process.

The Library funding is less than requested by the Library Board. The Capital Improvement Budget is funded at a minimum level to avoid additional borrowing. Debt service costs have been reduced by transferring some revenue from the General Fund and by recommending internal borrowing for 2004 capital projects. The result of these actions is an adopted tax levy budget increase of 1.32%, which is less than the 3.38% estimated increase that will be realized just through growth in the community. Franklin continues to be a growing community and its service needs will continue to grow.

Respectfully submitted,

Gary R. Petre
Director of Administration